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5 May 2017

Dear Mark,

Statutory Consultation on changes to the Capacity Market Rules 2014 (the “Rules”) pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the “Regulations”)

Thank you for the opportunity to respond to the above consultation. We look forward to working alongside the BEIS and Ofgem EMR teams, as well as industry stakeholders, to achieve its objectives.

This response is made on behalf of National Grid Electricity Transmission (NGET). NGET was designated as the Electricity Market Reform (EMR) Delivery Body for the Feed in Tariffs with Contracts for Difference (CfD) and Capacity Market (CM) in December 2011, a role which was formally conferred on NGET by the Secretary of State pursuant to secondary legislation made under the Energy Act 2013.

We have limited our response to those Change Proposals (CP) we consider warrant further clarification, consideration or input from the Delivery Body. Where we have not commented, please assume we are comfortable with Ofgem’s intended approach.

Where amendments to the Capacity Market Rules are necessary, we intend to publish updated guidance documentation which will outline the change(s) and any related consequence for the applicant. This documentation will be published prior to Prequalification in order to ensure that participants submit an application with the most relevant information to hand. Where appropriate we will also be liaising with the Settlement Body to do the same.

In order to deliver necessary changes to the EMR system based on this year’s potential rule changes in time for Prequalification, it has been necessary for the Delivery Body to commence work on the system based on Ofgem’s minded to position. Going forward, the Delivery Body is keen to work with Ofgem, BEIS and the wider industry to minimise risk and establish how implementation timelines can be integrated in to the overall change process.

Should you wish to discuss any aspect of this response further with us, we would be happy to do so.

Yours faithfully

A handwritten signature in black ink that reads "Matt Magill". The signature is written in a cursive style with a large, stylized "M" and "M".

Matthew Magill
EMR Capacity Market Manager

Annex 1: Delivery Body Response per Change Proposal

GENERAL PROVISIONS	
CP178	The Delivery Body will include guidance materials on connection agreements in our Prequalification documentation. Therefore we agree that a rule change is not necessary.
AUCTION GUIDELINES AND DE-RATING	
CP176 CP224	The Delivery Body would like to clarify that the work to develop a new de-rating methodology will be carried out by NGET in Summer 2017.
CP191	<p>The Rules as they currently stand only allow transmission generation data to be used to derive CM de-rating factors for all types of generation which was drafted when no distribution connected generation data was available back in 2013. This results in CM de-rating factors for distributed connected technologies using transmission generation technologies data, which, whilst similar in design, operate in different markets. Since the Rules were drafted data from distributed generation technologies has become available from Electralink. Whilst this data may not be directly comparable to the availability data that exists for transmission technologies as it is output based, it nevertheless offers the opportunity to provide more appropriate data specific to the technology in question.</p> <p>NGET believes the concerns Ofgem expressed with regard to using output data are valid, however, various data slicing techniques can be adopted that allow these concerns to be addressed so the data is comparable with the availability data currently being used. We are keen to work with Ofgem to help develop a rule proposal which all parties understand and agree that allows distributed data to be used. In the future as more distributed generation is connected and it becomes a higher proportion of the generation mix, it will be important to use the most appropriate data to ensure the CM de-rating factors are as accurate as possible and reflect their true contribution to security of supply.</p>
PREQUALIFICATION INFORMATION	
CP190	The Delivery Body intends to make a small system change to accommodate this.
CP215	Additionally, the policy intent indicates that existing limitations on connection capacity of 50MW should apply to the new Rules defined (3.2.8 and 3.2.9). We believe that in order to deliver this policy intent, it will be necessary to include an additional statement within Rule 3.2.8 similar to that currently defined in rule 3.2.6(a).

CP233	<p>Due to the complexity of the demand multiplier change, there is a risk that the way this data is collected may not be adequate for ESC if delivered in time for Prequalification this year. Therefore we wish to work with ESC and Ofgem to determine the best time and period to collect this information.</p> <p>Additionally, the Delivery Body is concerned this proposal may impact address changes, which we would like to be taken into consideration.</p>
CP235	<p>After having had discussions with ESC we believe that the collection of this data would be more appropriate after auction for successful applicants.</p> <p>As the Delivery Body currently collects Meter Point Administration Number (MPAN) data and some other metering data for the CM Register, we understand the need for this data to be collected in the same location but believe the validation responsibility lies with the Settlements Body.</p> <p>We question whether there is a need for a more fundamental change needed in the way all metering data is collected and used in order to drive efficiency and ease of use for applicants. We will continue to work with ESC, BEIS and Ofgem to achieve this.</p> <p>In the meantime, the Delivery Body and ESC will work together to find the most efficient solution for participants and will publish appropriate guidance.</p>
CP219	<p>We support Ofgem's conclusion and in addition we would like to take this opportunity to remind New Build applicants who are going to be connected to a private network to fulfil 3.7.3(c)(ii) and not 3.7.3(c)(i). If an applicant initially has a private network owner letter, they will not be able to change to a connection agreement deferral.</p>
CP229	<p>Regarding CQ1: <i>Do you agree with the introduction of a financial penalty under Rule 6.8.4 for failing to meet refurbishment milestones?</i></p> <p>The Delivery Body supports the introduction of a penalty as we believe this matches the original policy intent of technology neutrality. From our perspective, the introduction of a financial penalty brings Refurbishment plant more in line with New Build and from a security of supply perspective will likely drive an increase in the likelihood of delivery.</p>
CP165 CP230	<p>For clarification we will act in accordance with the existing Rules but would highlight concern over possibility of gaming if applicants had more time to post credit cover.</p> <p>As the Rules are not changing this year, we would like to take the opportunity to remind participants that credit cover will needed to be posted 15 working days after receiving notification of their conditional Prequalification decision (see Rule 4.6.1). This is irrespective of whether they have appealed their conditional Prequalification decision or not.</p>

DETERMINATION OF ELIGIBILITY

OF12	<p>The Delivery Body believes that issues regarding DSR reallocation need to be addressed before relevant Rule amendments are implemented. Therefore we suggest this proposal is not actioned within this year’s consultation and request to work with Ofgem and the industry in the coming months for further refinement.</p> <p>The Delivery Body would like to note the following:</p> <ul style="list-style-type: none"> • This proposal doesn’t allow for reallocation and the DSR community have told us they want this. • This proposal compares to STOR, which it shouldn’t do because they are separate products. • This proposal doesn’t give timescales for the Delivery Body to turn around a request. • The DSR community have told us that it is sufficient to trial the reallocation tool four times per year. The Delivery Body is not resourced to cope with 20 trials per year. We request that the Delivery Body is given an ultimate right of refusal to reject a proposal if we deem it operationally inappropriate. <p>Furthermore, the Delivery Body understands that this Rule change will not be incorporated into systems until 2018.</p>
CP170	<p>The Delivery Body will inform applicants as to why their application has failed. Updates of existing guidance materials will be published on our website prior to the Prequalification window opening. It is up to the applicant to read these in association with the Rules and Regulations to understand exactly what is required.</p>
CP187	<p>If Ofgem is minded to take forward elements of this proposal in the future, we would like to work with the proposer and Ofgem to ensure that any gaming risks – such as being able to track movement of CMUs – is fully considered and mitigated.</p>

CAPACITY MARKET REGISTER

CP201	<p>The Delivery Body will always endeavour to provide participants with sufficient information and will be as transparent as possible within the confines of the Rules and Regulations. We support this proposal but consider that we already act within the amendment anyway.</p>
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CP237	<p>We appreciate the update to the Rules which will allow the Delivery Body to update the Auction Acquired Capacity Obligation (AACO) on the Register; however, the Rules as proposed no longer recognise the need to retain the original AACO value. There is an implicit requirement to do this due to Rule 6.7.6; as a result this will be held within the Delivery Body’s system and will not be available on the Register, instead only the most up to date AACO will be visible.</p> <p>This change will also have an impact on ESC and we are liaising with them to understand the implications to their systems.</p>
CP213	<p>We are working on an IS solution to ensure that both Generating Technology Class and Primary Fuel Type are captured on the public CM Register.</p>

OBLIGATIONS OF CAPACITY PROVIDERS AND SYSTEM STRESS EVENTS

CP167 CP194	<p>We are glad that Ofgem has accepted the proposal to make the RfR figure more appropriate and up to date. We also intend to highlight the RfR figure more prominently with the Electricity Capacity Report so applicants are aware of the figure before the start of the Delivery year.</p>
CP185	<p>We have recently published guidance on Metering Assessments and will continue to liaise with ESC and EMRS to publish guidance on Metering Test requirements. We would to make it clear that the Delivery Body undertakes the Metering Assessment based on the advice from EMRS/ESC and therefore queries are best placed to the Settlements Body.</p>
CP216	<p>Regarding CQ2: <i>Should the SO be required to update the information included in a CMN and if so what should such updates include? Please clarify why participants need this information in a CMN and cannot access it readily elsewhere?</i></p> <p>We have discussed with our System Operator colleagues and have the following comments to make:</p> <p>We believe the existing CMN process meets the original needs of alerting participants when a Settlement Period drops below the 500MW margin. The current process goes beyond the minimum requirements by introducing text alerts to compliment the website updates and email alerts. Elexon added additional functionality to their System Warnings page to facilitate email alerts, providing extra information.</p> <p>Only two CMNs were issued in the first Delivery Year’s winter period (2016/17), which was a transitional Delivery Year, neither of which developed into a stress event. We would therefore recommend the experience of going through another Delivery Year’s winter. Then the key intention of the CMN alert should be focussed on what other information is available to the market (i.e. we should avoid duplication of information that could be confusing and/or have limited additional value to market participants).</p> <p>With regards to lead times to make changes to our systems we recommend at least 12 months advance notice to make any changes following the period of consultation and final communication decision on a way forward.</p>

TESTING REGIME	
CP169	The Rules around Satisfactory Performance Days are currently unclear. We look forward to working with Ofgem to help get some clarity on this issue prior to future Delivery Years.
CP171	<p>In order for the Delivery Body to provide this notification within the time frame, we believe that this Rule should be amended so either:</p> <ul style="list-style-type: none"> • The time limit for the Delivery Body starts from the point at which the information is received, or • put a separate requirement on the Settlement Body to respond in a particular time frame subject to settlement processes <p>We would be happy to work with ESC and Ofgem to decide on the most appropriate method that meets the rule intention without compromising the Delivery Partners' ability to remain compliant within the Rules.</p>
CP231	We support the approach in the proposal; however we would like to clarify the outcome should the CMU be proportionally reduced to below 2MW and therefore no longer meet the general eligibility criteria. We believe any rule amendments should take this into account and make it clear what to do in the described circumstance.
CP186	The Delivery Body echoes comments made by Ofgem and further would like to highlight the profile of tests, where 89% of DSR units hadn't obtained a DSR certificate a month before the deadline.
SCHEDULES AND EXHIBITS	
OF14	<p>Regarding CQ3: <i>Do you think there are amendments that could be made to Schedule 4 which reduce the likelihood of future Rules changes being required if balancing service products are altered, which do not undermine the wider functioning of the Rules?</i></p> <p>We believe that there should be the process in the Rules to incorporate any new balancing services and believe the current process acts as a gatekeeper to ensure that these are well considered and thought out prior to incorporation.</p>

Annex 2: Delivery Body Response to Ofgem Proposals

OF12 – DSR Component Reallocation

We have responded to this proposal in the Determination Of Eligibility section.

OF13 – Calculating the Output of a Storage Facility

Regarding CQ4: *Do you agree that this is an appropriate solution to the issue identified with the storage output formula under Rule 8.6.2?*

The Delivery Body has no specific comments to make on the proposal.

OF14 – Frequency Response Services in the CM

Regarding CQ5: *Do you agree this approach allows DSR providers of frequency response the ability to participate effectively during the testing regime?*

and

CQ6: *Do you agree that no change is required to the calculation of output during Satisfactory Performance Days and Stress Event periods once all frequency response services are included under Schedule 4?*

and

CQ7: *Do you agree that the current metering arrangements are suitable for DSR providers of frequency response services?*

The Delivery Body does not believe the amendments to Rules 3.4.10 and 7.4.1(viii) are appropriate to be implemented because of the following:

- Rule 4.4.4 would prevent an applicant who didn't have a balancing service contract at the time of Prequalification from adding any future balancing services to their CM agreement. This could impact the applicant's ability to provide a balancing service and CM obligation simultaneously.
- The full proposal was only shared when the consultation was published on 23 March 2017. The Delivery Body's system delivery plan does not have the capacity to add a change of this magnitude to the system ahead of this year's Prequalification.

We are supportive of a method which allows dynamic FFR to take part in the Capacity Market. Though as things stand currently we would question whether the data flows are currently in place to this change proposal's needs.

We are happy to work with Ofgem, the SO and the Settlement Body to ensure this data is available but this would undoubtedly take some time.

OF15 – Calculating Connection Capacity

Regarding CQ8: *Do you agree with our conclusions with regard to our preferred testing format?*

and

CQ9: *Do you think our proposed approach to setting incentives (threshold and penalty) will effectively reduce instances of capacity overstating?*

Whichever method of calculating connection capacity is chosen, there will have to be significant lead time in order for Delivery Partners to prepare for the implementation of this substantial system change.